

Message Text

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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 05065

USDOC FOR BEWT

E.O. 11652: GDS
TAGS: UR, US, ETRD, EEWT
SUBJECTS: COCA COLA-SOVIET CONTRACTS: COKE FOR THE
OLYMPICS, FANTA FROM '79

BEGIN LIMITED OFFICIAL USE.

SUMMARY: THE COCA COLA COMPANY CONCLUDED SEVERAL AGREE-
MENTS WITH THE SOVIET ORGANIZATIONS MARCH 14 AND 15 IN
MOSCOW. AS FAR AS CAN BE DETERMINED, THE AGREEMENTS
PROVIDE: (1) AN EXCLUSIVE CONTRACT FOR COCA COLA TO
SUPPLY SOFT-DRINKS TO THE 1979 SOVIET GAMES (SPARTAKIADE)
AND THE 1980 OLYMPICS AND TO USE THE OLYMPIC SYMBOL IN
ITS ADVERTISING WORLD-WIDE; (2) FOR THE PURCHASE OF
COCA COLA CONCENTRATE; (3) FOR CONSTRUCTION OF A PLANT
TO MANUFACTURE FANTA IN MOSCOW, WHICH WILL BE PRODUCED
FROM THE SPARTAKIADE IN 1979 TO 1984; AND (4) FOR
THE PROCESSING OF TEA FROM SOVIET GEORGIA INTO INSTANT
TEA. THE FINANCIAL ASPECTS INCLUDED A PAYMENT OF
5 TO 10 MILLION DOLLARS BY COCA COLA FOR THE EXCLUSIVE
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CONTRACT AND AN UNDETERMINED COMPENSATION AGREEMENT.
HOWEVER, IT REMAINS TO BE SEEN WHETHER COCA COLA HAS
THUS WON THE INSIDE TRACK IN THE COMPETITION FOR
AN EXCLUSIVE IMPORTED COLA-DRINK CONTRACT FOR THE
PERIOD AFTER PEPSI'S EXPIRES IN 1984. END SUMMARY.

1. ON MARCH 14, COCA COLA COMPANY DELEGATION, INCLUDING J. PAUL AUSTIN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AND CLAUS MARTIN HALLE, EXECUTIVE VICE-PRESIDENT FOR EUROPE, CONCLUDED AN AGREEMENT WITH THE OLYMPIC ORGANIZING COMMITTEE WHICH DESIGNATES THE COCA COLA COMPANY AS THE EXCLUSIVE SUPPLIER OF NON-ALCOHOLIC BEVERAGES TO THE 1980 OLYMPICS AND ALLOWS COCA COLA TO USE THE OLYMPIC SYMBOL IN THE ADVERTISING WORLD-WIDE. UNDER THE TERMS OF THE CONTRACT, COCA COLA WILL SUPPLY COCA COLA, COKE, AND FANTA SOFT-DRINKS FREE TO THE "PARTICIPANTS, OFFICIALS, HONORED GUESTS, AND ACCREDITED CORRESPONDENTS" TO THE OLYMPICS.

2. ON MARCH 13, THEY CONCLUDED AGREEMENTS WITH SOVIET FOREIGN TRADE ORGANIZATIONS "SOYUZPLODIMPORT" AND "TEKHNOPROMIMPORT" FOR THEIR PURCHASE OF CONCENTRATES IN ORDER TO MANUFACTURE SOFT DRINKS FOR SALE WITHIN THE OLYMPIC SITES.

3. ACCORDING TO COCA COLA SOURCES, ANOTHER AGREEMENT FORESEES THE CONSTRUCTION OF A PLANT IN MOSCOW ON WHICH WORK HAS ALREADY STARTED, WHICH WILL BE EQUIPPED WITH MACHINERY FROM WEST GERMANY AND WHICH WILL START PRODUCING FANTA SOFT-DRINKS IN 1979. FANTA AND COCA COLA WILL BE THE OFFICIAL DRINKS AT THE SOVIET GAMES (SPARTAKIADE) IN 1979. (THE SPARTAKIADE ARE NOT OFFICIALLY CONNECTED WITH THE OLYMPICS. TRADITION-CONFIDENTIAL

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ALLY, THEY ARE ALL-UNION GAMES WHICH PRECEDE THE OLYMPICS. IN 1979, HOWEVER, FOREIGN ATHLETES WILL BE INVITED.) COCA COLA SOURCES ALSO STATED THAT THE AGREEMENT PROVIDES FOR FANTA TO CONTINUE TO BE PRODUCED AFTER THE OLYMPICS AND UNTIL 1984. ACCORDING TO A DRAFT PRESS RELEASE WRITTEN BY THE COCA COLA COMPANY MARCH 1, THE COMPANY EXPECTED TO TRAIN SOVIET TECHNICAL PERSONNEL IN PRODUCTION AND QUALITY CONTROL MEASURES.

4. ON MARCH 14, THE DELEGATION SIGNED A CONTRACT WITH THE MINISTRY OF THE MEAT AND DAIRY INDUSTRY, CONCERNING THE PRODUCTION AND MARKETING OF INSTANT TEA IN THE SOVIET UNION. THIRTY TONS OF TEA FROM SOVIET GEORGIA WILL IN THE NEAR FUTURE BE SENT TO THE UNITED STATES FOR PROCESSING AND, ACCORDING TO A SOVIET SOURCE, WILL BE RETURNED TO THE SOVIET UNION WITHIN SIX WEEKS. THEREAFTER, COKE WILL SUBMIT PROPOSALS FOR BUILDING AN INSTANT TEA PLANT IN THE SOVIET UNION.

5. AS FOR THE FINANCIAL ASPECTS OF THE AGREEMENTS, ACCORDING TO A COCA COLA SOURCE, THE COMPANY WILL BE PAYING FROM 5 TO 10 MILLION DOLLARS FOR THE EXCLUSIVE RIGHTS TO SUPPLY SOFT-DRINKS TO THE OLYMPICS (THE SOURCE DID NOT KNOW THE EXACT FIGURE). IN REGARD TO PURCHASE OF THE CONCENTRATE, MR. AUSTIN, AT A PRESS CONFERENCE MARCH 14, STATED THAT THE POSSIBILITY HAD BEEN DISCUSSED THAT COCA COLA WOULD PURCHASE THE 5 GALLON STEEL CONCENTRATE CANS, "AT WORLD MARKET PRICES" IN COMPENSATION.

6. APPARENTLY, THE NEGOTIATION WERE MORE DIFFICULT THAN COCA COLA HAD EXPECTED. ACCORDING TO COCA COLA SOURCE, THE SOVIETS PRESENTED THE COCA DELEGATION WITH SEVERAL ISSUES FOR WHICH THE DELEGATION WAS NOT CONFIDENTIAL

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PREPARED. THE MOST DIFFICULT ISSUE WAS THAT OF COMPENSATION FOR THE CONCENTRATE.

7. THE CONTRACTS LIMIT THE PRODUCTION AND DISTRIBUTION OF COCA COLA ITSELF TO THE PERIOD AND TO THE SITES OF THE SPARTAKIADE AND THE OLYMPICS. A COCA

COLA SOURCE STATED THAT IT HAD NOT BEEN POSSIBLE, ALTHOUGH THE MINISTRY OF FOREIGN TRADE HAD TRIED, TO CIRCUMVENT THE EXCLUSIVITY CLAUSE WHICH PEPSI COLA HAS UNTIL 1984, EXCEPT FOR THESE TWO EVENTS.

8. AS COCA COLA OFFICIALS WERE QUITE FRANK IN THEIR DISCUSSIONS WITH THE EMBASSY, WE ASK THAT THIS INFORMATION BE TREATED ON A BUSINESS-CONFIDENTIAL BASIS.

9. COMMENT: THE CONTRACTS CONCLUDED THIS WEEK WILL HAVE AN IMPACT BEYOND THE OLYMPICS. IN A MEETING WITH THE AMBASSADOR, CHAIRMAN AUSTIN STATED THAT COCA COLA IS ALREADY PLANNING TO COMPETE FOR THE EXCLUSIVE COLA-DRINK CONTRACT WITH THE SOVIET UNION, WHEN THE ONE WITH PEPSI EXPIRES IN 1984. THIS WEEK'S EXPERIENCES
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SHOULD ASSIST COCA COLA IN THE COMPETITION. COCA COLA SAYS IT NOW HAS A FEELING FOR THE NEGOTIATING STYLE OF THE SOVIETS AND THEIR FINANCIAL CONSTRAINTS. THE CONTRACTS WILL ALSO GIVE COCA COLA THE OPPORTUNITY TO WORK WITH A VARIETY OF SOVIET ORGANIZATIONS AND PERHAPS MAKE A NUMBER OF USEFUL CONTACTS. FURTHERMORE, FANTA, WHICH WILL BE PRODUCED FROM 1979 TO 1984, MAY ALSO GIVE COCA COLA A WEDGE INTO THE SOVIET MARKET AND EXPERIENCE IN PRODUCING IN THE SOVIET UNION.
END LIMITED OFFICIAL USE.

10. BEGIN CONFIDENTIAL: COCA COLA BELIEVES THAT IT HAS GAINED THE INSIDE TRACK IN THE COMPETITION WITH PEPSI. ONE OF THE COCA COLA EMPLOYEES TOLD US THAT THE COMPANY WOULD NOT HAVE WORKED AS HARD AS IT HAS UNLESS IT HAD A STRONG CHANCE OF WINNING THE CONTRACT IN 1984. I. T. NOVIKOV, THE CHAIRMAN OF THE STATE COMMITTEE ON CONSTRUCTION AFFAIRS AND CHAIRMAN OF THE OLYMPIC ORGANIZING COMMITTEE CORROBORATED THE COCA COLA ASSERTION AT A RECEPTION, WHEN HE PREDICTED TO THE AMBASSADOR THAT COCA COLA WILL GET THE CONTRACT. END COMMENT. END CONFIDENTIAL.
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